

JUL 17 1990

MONTANA STATE LIBRARY
1515 E. 6th AVE.
HELENA, MONTANA 59620

State of Montana
Office of the Legislative Auditor

Report to the Legislature

Montana State Library

**Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1985**

This report contains ten recommendations for improvement of the library's operations. The major items addressed in this report include compliance with state laws and regulations and internal controls.

PLEASE RETURN



Direct Comments/Inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620



FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant impact on the financial schedules. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office.

Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE:

Senator Judy Jacobson, Chairman	Representative John Cobb,
Senator Dave Fuller	Vice Chairman
Senator Pat Goodover	Representative Dorothy Bradley
Senator Tom Keating	Representative Roland Kennerly
	Representative Bruce Simon

Office of the Legislative Auditor

MONTANA STATE LIBRARY

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1985

Audit staff involved in the Montana State Library audit included:

Mary Bryson
Laurie Evans
Karen Nicholls
Robert Ricker
Shari Scoles

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLET
FINANCIAL-COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

March 1986

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana State Library's financial activity for fiscal years 1983-84 and 1984-85. The library's written response to audit recommendations is included in the back of the audit report.

We thank the State Librarian and the library staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

TABLE OF CONTENTS

	<u>Page</u>
Appointed and Administrative Officials	iii
Summary of Recommendations	iv
Introduction	1
Background	1
Management and Accounting Controls	3
State Compliance	4
Internal Control	5
Book Purchases	7
Authorization	7
Supporting Documentation	8
Records Disposal	9
Fixed Assets	10
Personnel Administration	11
Terminations	11
Contingent Revolving Fund	12
Indirect Cost Recovery	13
Federal Compliance	14
Federal Reporting	14
Prior Audit Recommendations	15
Auditor's Opinion Letter and Agency Financial Schedules	
Summary of Audit Opinion	
Auditor's Opinion Letter	16
Schedule of Changes in Fund Balance for the Two Fiscal Years Ended June 30, 1985	18

TABLE OF CONTENTS (Continued)

	<u>Page</u>
Schedule of Revenues - Estimate and Actual for the Two Fiscal Years Ended June 30, 1985	19
Schedule of Program Expenditures By Fund - Budget and Actual for the Fiscal Year Ended June 30, 1985	20
Schedule of Program Expenditures By Fund - Budget and Actual for the Fiscal Year Ended June 30, 1984	21
Schedule of Program Expenditures By Object for the Fiscal Year Ended June 30, 1985	22
Schedule of Program Expenditures By Object for the Fiscal Year Ended June 30, 1984	23
Notes to Financial Schedules	24
Schedule of Grant Receipts and Expenditures For Fiscal Years Ending June 30, 1984 and 1985	27
Agency Response	28

APPOINTED AND ADMINISTRATIVE OFFICIALS

STATE LIBRARY COMMISSION

		<u>Term Expires</u>
Henry McClernan, Chairman	Butte	May 1987
C.E. Abramson	Missoula	May 1988
Noreen Alldredge**	Bozeman	March 1986
Victoria Braaten	Helena	*
Martha B. Davis	Dillon	May 1986
Karen Everett	Billings	May 1987
Mary Hudspeth	Bozeman	May 1988

*Designee of the Superintendent of Public Instruction

**Appointed by the Commissioner of Higher Education from the Montana University System

ADMINISTRATION

Sara Parker

State Librarian

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's response.

Page

Recommendation #1

The library:

- A. Establish written procedures to ensure transactions are processed in accordance with state accounting policy.

4

Agency Response: Concur. See page 29.

- B. Provide for adequate staff training to ensure management policies, procedures, and state accounting policies are followed.

4

Agency Response: Concur. See page 29.

Recommendation #2

The library segregate the record keeping and physical control functions for book purchases.

7

Agency Response: Concur. See page 29.

Recommendation #3

The library establish procedures to ensure documents are properly reviewed and approved prior to processing.

8

Agency Response: Concur. See page 29.

Recommendation #4

The library provide adequate support for all documents processed in compliance with state accounting policy.

9

Agency Response: Concur. See page 29.

Recommendation #5

The library comply with state policy when disposing of state records.

10

Agency Response: Concur. See page 29.

SUMMARY OF RECOMMENDATION (Continued)

Page

Recommendation #6

The library:

- A. Perform annual physical counts of fixed assets. 11

Agency Response: Concur. See page 29.

- B. Establish procedures to ensure fixed assets are accounted for in accordance with state accounting policy. 11

Agency Response: Concur. See page 29.

Recommendation #7

The library compensate employees for leave balances accumulated prior to termination in accordance with state law. 12

Agency Response: Concur. See page 29.

Recommendation #8

The library:

- A. Comply with state accounting policies relating to revolving account expenditures. 13

Agency Response: Concur. See page 29.

- B. Ensure the revolving account is adequately reconciled on a monthly basis. 13

Agency Response: Concur. See page 29.

Recommendation #9

The library negotiate an indirect cost recovery rate with the federal government that will enable it to recover the indirect costs of administering federal grants. 14

Agency Response: Do not concur. See page 30.

SUMMARY OF RECOMMENDATION (Continued)

Page

Recommendation #10

The library:

- A. Record all grant activity on the federal cash status reports. 15

Agency Response: Concur. See page 30.

- B. Ensure that federal reports can be traced back to state accounting records. 15

Agency Response: Concur. See page 30.

INTRODUCTION

We performed a financial-compliance audit of the Montana State Library (library) for the fiscal years ended June 30, 1984 and June 30, 1985. The objectives of the audit were to: 1) make recommendations for improvement in the management and internal controls of the library; 2) determine if the library complied with applicable laws and regulations; and 3) determine if the library's financial schedules present fairly in accordance with state accounting policy the results of operations and changes in fund balance for the two fiscal years ended June 30, 1985.

This report contains 10 recommendations to the library. These recommendations address areas where the library can improve management, internal control, financial reporting, and compliance with laws and regulations. Other areas of concern deemed not to have a significant effect on the successful operations of the library programs are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

BACKGROUND

The Montana State Library is the focal point of development of public library service in Montana. The library operates under policies established by the State Library Commission. The Commission was created by statutes enacted in 1929, which are currently codified in Title 22, chapter 1, MCA. The Commission consists of seven members as follows: the State Superintendent of Public Instruction or his designee, a librarian appointed by the Commissioner of Higher Education from the Montana University System, and five persons appointed by the Governor.

The functions of the Commission, as set forth in the statutes, are to: 1) give assistance and advice to all publicly supported libraries and local government agencies which may propose to

establish libraries within the state, 2) maintain and operate a state library, 3) accept and expend federal and other grants, 4) establish rules, regulations, and standards for the State Library, 5) provide services to the blind and physically handicapped, 6) develop standards for public libraries, 7) furnish library assistance and services to state agencies and residents inadequately serviced by libraries, 8) designate areas for the establishment of federations of libraries, and 9) appoint the State Librarian.

A major emphasis of the state library program is the federations of local libraries within the state library system. The federations constitute a division of the state into six regions, each locally administered at a federation library headquarter location.

During fiscal year 1983-84 the library began a complete reorganization to enable program budgets and financial reports to more closely reflect actual program activities. Functions changed within four of the five existing programs and one new program was started. Current programs include:

Reference and Information Services - Provides reference, information, lending and interlibrary loan services either directly or through a public, academic, school or special library.

Library Development and Networks - Provides services to Montana libraries to promote the most efficient delivery of library services to the citizens of the state.

Institutional Library Services - Provides services to residents of custodial or correctional institutions either directly or by contract through a local library.

Service to Blind and Physically Handicapped - Provides direct library service to the handicapped and helps to develop a volunteer service program.

Administration - Provides State Library management, federal program administration, centralized fiscal and accounting activities and program-wide services for the State Library.

Technical Services - Provides centralized library material acquisition, cataloging and technical processing, documents programs, automation and consultation.

The State Library operations are financed from General Fund appropriations, federal grants pursuant to the Library Service and Construction Act, and apportionments from the State's coal severance tax.

The library is currently authorized 25.5 full-time equivalent employees, with all but one located in Helena. With the exception of 2 FTE for administrative staff, all employees assist the state librarian in providing library services. Until November 1982, the State Library was housed in a leased building in Helena. In November 1982, the library moved into the new state-owned Justice/State Library Building in the capitol complex in Helena.

MANAGEMENT AND ACCOUNTING CONTROLS

The Montana Operations Manual and management memos issued by the Department of Administration, Accounting Division, are established guidelines for use by state agencies in carrying out their management and accounting functions. These guidelines allow uniform accountability to ensure that these important functions are consistent throughout state government. Individual agency deviations or omissions can result in management or accounting which is not in compliance with state policies.

From discussions with and concerns of library personnel, as well as findings throughout the audit, we determined that there were instances where management and accounting controls and procedures were lacking or weak. Some examples of control weaknesses noted are as follows:

- a document submitted at fiscal year-end 1983-84 did not have the fiscal year noted on it and was therefore input as a fiscal year 1984-85 transaction. This overstated revenues and understated deferred revenues at fiscal year-end 1983-84 by \$5,681 in the General Fund.
- maintenance expense was coded as office supplies; dues paid for a library association meeting was coded as in-state personal car mileage.
- payment of a lawsuit settlement was coded as Contracted Services rather than as Benefits and Claims.

- several documents were assigned the same number in the same fiscal year. The Montana Operations Manual (2-0900) suggests agencies maintain a document numbering log to assure a sequential, nonrepetitive assignment of document numbers.

We also noted management procedural and control problems relating to authorizations, adequate supporting documentation, records disposal policies, fixed asset accountability, personnel administrations and indirect cost recovery. Accounting control weaknesses related to the Contingent Revolving Fund, and federal reporting were also noted. These instances are more fully discussed in this report beginning on page 7.

While each of the instances noted in this report may not be significant on an individual basis, taken together they indicate that library management has not established appropriate procedures or provided adequate personnel training for the processing of the library's accounting transactions in accordance with state policies. Establishment of adequate procedures and the providing of staff training are essential before proper accounting and management controls can be implemented.

RECOMMENDATION #1

WE RECOMMEND THE LIBRARY:

- A. ESTABLISH WRITTEN PROCEDURES TO ENSURE TRANSACTIONS ARE PROCESSED IN ACCORDANCE WITH STATE ACCOUNTING POLICY.
- B. PROVIDE FOR ADEQUATE STAFF TRAINING TO ENSURE MANAGEMENT POLICIES, PROCEDURES, AND STATE ACCOUNTING POLICIES ARE FOLLOWED.

STATE COMPLIANCE

We have examined the financial schedules of the Montana State Library for the years ended June 30, 1984, and June 30, 1985, and have issued our report thereon dated December 20, 1985. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the

accounting records and such other auditing procedures as we considered necessary in the circumstances.

Except for the instances of noncompliance described in the report sections on pages 7 through 10, the Montana State Library complied with the terms and provisions of laws and regulations for the transactions tested. For those transactions not tested, nothing came to our attention in connection with our examination that caused us to believe that the Montana State Library was not in compliance with the terms and provisions of laws and regulations.

The noncompliance conditions referenced above were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination, and these conditions do not affect our opinion on the Montana State Library financial schedules dated December 20, 1985.

INTERNAL CONTROL

We have examined the financial schedules of the Montana State Library for the two fiscal years ended June 30, 1985. We issued our opinion dated December 20, 1985, on these schedules. As part of our examination, we made a study and evaluation of the library's control system. Our study evaluated the system as required by generally accepted auditing standards and Standards for Audits of Governmental Organizations, Programs, Activities, and Functions for financial and compliance audits. We classified the controls in the following categories:

1. expenditures;
2. grants;
3. revenue; and
4. payroll.

Our study included the control categories listed above. We applied alternative audit tests to revenue and grants as we determined it was more efficient to expand substantive testing for those areas. Through our study, we determined the nature, timing, and extent of our auditing procedures. We did not evaluate the control

system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the Montana State Library is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the Montana State Library. However, our study disclosed conditions that indicate internal control weaknesses exist. These conditions relate to book purchases, personnel terminations, authorizations, and fixed assets as discussed in the following sections. These conditions were considered in determining the nature, timing, and extent of the audit tests on the financial schedules.

The preceding three paragraphs are intended solely for the use of management and the legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

Book Purchases

The Montana State Library expended approximately \$90,000 per year during fiscal years 1983-84 and 1984-85 for the acquisition of equipment and library books. Library books represent over one-half of the \$1.5 million balance of equipment and books recorded on the library's records as of June 30, 1985.

Our review of the book purchasing function of the Montana State Library disclosed that one employee was solely responsible for the ordering, receiving, and recording of book purchases. The segregation of duties of the recording, acquisition, and safe-keeping functions is a fundamental control to ensure that errors or irregularities in accounting records and misuse or misappropriation of assets are minimized. Without an adequate segregation of these functions there is little assurance that accounting errors or irregularities will be detected on a timely basis or that assets are properly safeguarded and accounted for.

It is not necessary to have a separate employee handle each of these functions. A division of these responsibilities between employees could add to the security and control over the book purchasing function. For example, one employee could be responsible for ordering and recording books purchased and another for the receiving function.

We did not find any indications of recording errors or irregularities or misappropriation of assets.

RECOMMENDATION #2

WE RECOMMEND THE LIBRARY SEGREGATE THE RECORD KEEPING AND PHYSICAL CONTROL FUNCTIONS FOR BOOK PURCHASES.

Authorization

Expenses incurred by state employees in the course of performing state business are recorded by the employee on a travel expense voucher. These vouchers are subsequently turned in for

approval and reimbursement is provided via a warrant generated by a transfer warrant claim.

The Administrative Rules of Montana (ARM 2.4.154) require that travel expense vouchers be approved by an employee's supervisor or authorized agency official. Similarly, state law (section 17-8-201, MCA) requires that claims for disbursement must bear the signature of an authorizing officer or employee. Good internal controls support these requirements in general for all types of transactions. These procedures help ensure that responsible personnel are performing adequate reviews to ensure the propriety of transactions being processed.

During our testing of payroll expenditures we found that 16 of 45 time sheets selected had no approval signature by the employee's supervisor. Similarly, we found authorizing signatures missing on one of seven travel expense vouchers reviewed and one of the transfer warrant claims tested.

Because of the extent of missing signatures we expanded our testing. We reviewed all Statewide Budgeting and Accounting System (SBAS) documents on file at the library for fiscal year 1984-85, which disclosed missing signatures on three additional transfer warrant claims. As discussed in the first section on page 3, the above noted exceptions indicate a lack of procedures to ensure these documents are reviewed. This could increase the potential for processing incorrect or unauthorized transactions.

RECOMMENDATION #3

WE RECOMMEND THE LIBRARY ESTABLISH PROCEDURES TO ENSURE DOCUMENTS ARE PROPERLY REVIEWED AND APPROVED PRIOR TO PROCESSING.

Supporting Documentation

State policy (MM 2-79-8) requires that every SBAS document in an agency's file be properly and adequately supported with a

complete explanation accompanying the applicable document. During our testing of library transactions we found that 50 of 56 journal vouchers tested did not have sufficient explanation attached to support the transactions. Journal vouchers are utilized to process transactions on the state accounting system which do not involve the payment or receipt of state funds. We were able to determine the validity of the transactions in question by performing additional audit procedures. This lack of adequate supporting documentation or explanation appears to be mainly confined to journal vouchers.

The lack of adequate support could contribute to increased chances of processing incorrect, improper, or unauthorized transactions. We noted library personnel were not aware that support documentation was necessary for transactions processed on the state's accounting system.

RECOMMENDATION #4

WE RECOMMEND THE LIBRARY PROVIDE ADEQUATE SUPPORT FOR ALL DOCUMENTS PROCESSED IN COMPLIANCE WITH STATE ACCOUNTING POLICY.

Records Disposal

The Montana Operations Manual (1-1300) establishes rules for disposal of state records. Most agencies find it necessary to destroy records at some time and although the records may be of no value to the agency, they may have value elsewhere. To ensure these other values are not overlooked, the agency must complete a Records Disposal Request (RM-5) and obtain unanimous approval from the State Records Committee members prior to disposing of the records.

We discovered that the library apparently disposed of some accounting documents without the required authorization. Library personnel were able to find some of the missing forms but were unable to recover the rest. Unauthorized disposal of records

could result in loss of valuable data that may be difficult to recover.

RECOMMENDATION #5

WE RECOMMEND THE LIBRARY COMPLY WITH STATE POLICY WHEN DISPOSING OF STATE RECORDS.

Fixed Assets

In the previous audit of the Montana State Library, the auditor disclaimed an opinion on the fixed assets of the library because the balance was established with incomplete information and its validity was in doubt. The auditor noted that the library had not performed a physical count of its fixed assets held in Helena nor at federation libraries throughout the state since 1981. One problem noted was that when the library moved into its new facilities in the Justice Building in November 1982, it acquired a substantial amount of new equipment. This equipment was not purchased directly by the library but was acquired as part of the bulk purchase contract for the new Justice Building by the Department of Administration, Architecture and Engineering Division (A&E). The library was not given a complete listing of its new equipment and was unable to record it on SBAS. It was recommended that the library perform a physical count of its fixed assets on an annual basis and update its records accordingly. The library concurred with this recommendation and personnel said they would take such an inventory with or without the equipment listings from A&E.

In our follow-up on this prior recommendation we found that:

1. a complete physical count has not been taken;
2. no procedures exist to ensure equipment or book purchases are recorded on the Property Accountability Management System (PAMS);
3. not all property is tagged as required by state accounting policy;

4. no procedures have been established to ensure obsolete or disposed of equipment is deleted from PAMS; and
5. the location of equipment has not been monitored.

Therefore the validity of fixed asset balances at the Montana State Library are still in doubt. The library has recorded approximately \$1.5 million of fixed assets on PAMS and SBAS as of June 30, 1985 as follows:

Equipment	\$ 642,830
Books	859,769
Total	<u>\$1,502,599</u>

Due to the library's current staff's established priorities and experience, additional temporary employees may be necessary in order to complete the original physical count at the State Library, as well as the other locations where it has fixed assets. Any cost associated with implementing proper asset controls cannot be determined until library personnel determine the extent of procedures and personnel necessary to carry it out.

RECOMMENDATION #6

WE RECOMMEND THE LIBRARY:

- A. PERFORM ANNUAL PHYSICAL COUNTS OF FIXED ASSETS.
- B. ESTABLISH PROCEDURES TO ENSURE FIXED ASSETS ARE ACCOUNTED FOR IN ACCORDANCE WITH STATE ACCOUNTING POLICY.

Personnel Administration

Terminations

State law (section 2-18-618, MCA) allows qualified employees to take sick leave after working for a period of 90 days. Upon

termination, employees are paid for 25 percent of their remaining sick leave balance.

We noted an instance where a temporary employee who had worked 90 days and was eligible to take sick leave was required to take leave without pay when she was sick. The same employee was not paid for 25 percent of her accumulated sick leave balance upon her termination. Due to these two errors the employee was underpaid by \$157.87.

Library personnel are not familiar with state personnel policies. They thought temporary full-time employees did not qualify to use sick leave or be paid for 25 percent of their sick leave balance upon termination until they had worked six months.

RECOMMENDATION #7

WE RECOMMEND THE LIBRARY COMPENSATE EMPLOYEES FOR LEAVE BALANCES ACCUMULATED PRIOR TO TERMINATION IN ACCORDANCE WITH STATE LAW.

CONTINGENT REVOLVING FUND

The library maintains a Contingent Revolving Fund of \$350 at a local bank which, according to the DA-105 authorizing form, is to be used to pay inter-library loan charges up to \$20, invoices less than \$5, and provide for petty cash. State policy (MOM 2-1950) restricts disbursements to payments demanding immediate cash payment or expenditures of \$25 or less. Expenditures made from the fund were not limited to the types above but included expenditures for a travel advance, a conference registration, a training course, and newsletter postage. These payments ranged from \$30 to \$75. Library personnel said they were not aware of the MOM and DA-105 restrictions.

In our review of the monthly reconciliations we noted in one instance that not all differences were resolved as required by state policy and that the reconciliation process does not include a review of the types and amounts of expenditures made from the account.

RECOMMENDATION #8

WE RECOMMEND THE LIBRARY:

- A. COMPLY WITH STATE ACCOUNTING POLICIES RELATING TO REVOLVING ACCOUNT EXPENDITURES.
- B. ENSURE THE REVOLVING ACCOUNT IS ADEQUATELY RECONCILED ON A MONTHLY BASIS.

INDIRECT COST RECOVERY

According to federal regulations (34 CFR Part 770), to the extent that a state expects to incur indirect administrative costs as a result of its Library Service and Construction Act (LSCA) program, an indirect cost rate may be negotiated with the cognizant federal agency for that state pursuant to the provisions of 34 CFR Part 74, Appendix C, and 34 CFR 75.560 and 75.561.

State law (section 17-3-111, MCA) requires that "grantee agencies shall, in accordance with federal regulations and guidelines, negotiate indirect cost rates and endeavor to the fullest extent possible, to recover indirect costs of federal assistance programs." The library has not negotiated an indirect cost recovery rate with the federal government (Department of Education) in connection with its federal grants.

Without a negotiated indirect cost rate, a loss of General Fund revenue occurs associated with the Statewide Cost Allocation Plan (SWCAP) costs chargeable to the library and not recovered from the federal government. SWCAP costs are the indirect costs of supporting agency services (i.e., Department of Administration accounting, data processing, and personnel divisions). SWCAP charges to the library amounted to \$17,711 in fiscal year 1983-84 and \$24,951 in fiscal year 1984-85. Of these amounts the state's General Fund could have recovered approximately \$8,000 in fiscal year 1983-84 and \$11,500 in fiscal year 1984-85.

Library personnel did not believe it was necessary to negotiate an indirect cost recovery rate with the federal government because the library's (as opposed to the state's) indirect costs of

administering the federal grants were charged directly to the federal grants as an allowable cost.

RECOMMENDATION #9

WE RECOMMEND THE LIBRARY NEGOTIATE AN INDIRECT COST RECOVERY RATE WITH THE FEDERAL GOVERNMENT THAT WILL ENABLE IT TO RECOVER THE INDIRECT COSTS OF ADMINISTERING FEDERAL GRANTS.

FEDERAL COMPLIANCE

Our audit of federal moneys was performed in accordance with the requirements in the U.S. Office of Management and Budget "Circular A-102, Attachment P." This circular provides for audits of financial operations, including compliance with certain provisions of federal laws and regulations.

The Montana State Library receives federal funds from the U.S. Department of Education under the Library Services and Construction Act (LSCA) Titles I, II, and III. Areas reviewed included specific grant provisions, cost allowability, and grantor reporting. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

Federal Reporting

The Office of Management and Budget (OMB) "Circular A-102, Attachment P," requires that federal financial reports be complete, accurate, and traceable to supporting records. During October of fiscal year 1983-84 the library received a cash drawdown of \$5,544 for one of its grants. The library properly recorded this receipt on the Statewide Budgeting and Accounting System (SBAS), however, it was not reported on the Federal Cash Status Report for the quarter ended December 31, 1983, nor in any subsequent quarterly report. As a result, federal cash receipts were understated on the federal reports by \$5,544 during fiscal year 1983-84.

The Federal Cash Status Reports are prepared from SBAS records. We reviewed these reports for each fiscal year and attempted to trace them back into SBAS. We found that the Federal Cash Status Reports indicated that the Library disbursed \$3,038 and \$1,999 more during fiscal years 1983-84 and 1984-85 than SBAS records showed. Agency personnel were not able to reconcile these differences. A similar problem was noted in the prior audit.

RECOMMENDATION #10

WE RECOMMEND THE LIBRARY:

- A. RECORD ALL GRANT ACTIVITY ON THE FEDERAL CASH STATUS REPORTS.
- B. ENSURE THAT FEDERAL REPORTS CAN BE TRACED BACK TO STATE ACCOUNTING RECORDS.

PRIOR AUDIT RECOMMENDATIONS

The previous audit of the Montana State Library, for the two fiscal years ended June 30, 1983, contained nine individual recommendations. All nine recommendations are still applicable to the library's operations, five have been implemented, three partially implemented, and one has not been implemented. In the previous audit the agency concurred with all of the recommendations.

The recommendation which was not implemented relates to fixed assets and is discussed on page 10 of this report.

AUDITOR'S OPINION LETTER
AND AGENCY FINANCIAL SCHEDULES

SUMMARY OF AUDIT OPINION

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented.

Based on the auditor's opinion on page 16, the reader may rely on the fairness of the amounts presented on these schedules and the Statewide Budgeting and Accounting System when analyzing the library's operations.

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLET
FINANCIAL COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

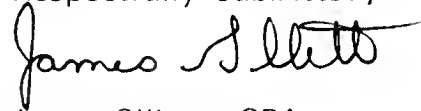
We have examined the financial schedules of the various funds of the Montana State Library for each of the fiscal years ending June 30, 1984, and 1985 as shown on pages 18 through 26. Our examination was made in accordance with generally accepted auditing standards and Standards for Audits of Governmental Organizations, Programs, Activities, and Functions and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The library's financial schedules are prepared in accordance with the basis of accounting described in Note 1 to the financial schedules. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial schedules noted in paragraph one present fairly the results of operations and changes in fund balance of such funds of the Montana State Library for the two fiscal years ended June 30, 1985, in conformity with the basis of accounting described in Note 1 applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the financial schedules referred to in paragraph one. The accompanying Schedule of Federal Grant Receipts and Expenditures is presented for disclosure purposes. The schedule has been subjected to the tests and other auditing procedures applied in the examination of the financial schedules above and, in our opinion, is fairly stated in all material respects in relation to the financial schedules referred to in paragraph one.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett", with a stylized, cursive script.

James Gillett, CPA
Deputy Legislative Auditor

December 20, 1985

MONTANA STATE LIBRARY
SCHEDULE OF CHANGES IN FUND BALANCE
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Expendable Trust Fund</u>
FUND BALANCE, July 1, 1983	\$ -0-	\$ (392,347) ¹	\$-0-
ADDITIONS:			
Fiscal Year 1984:			
Budgeted Revenue		514,001	
Nonbudgeted Revenue			2,180
Direct Entries to Fund Balance		811,224 ^{1,2}	
Support From State of Montana	527,712		
Prior Year Expenditure Adjustments		192	
Fiscal Year 1985:			
Budgeted Revenue		717,570	
Support from State of Montana	582,384		
Prior Year Expenditure			
Adjustments	394	2,500	
Total Additions	<u>1,110,490</u>	<u>2,045,487</u>	<u>2,180</u>
REDUCTIONS:			
Fiscal Year 1984:			
Budgeted Expenditures	527,181	921,667	
Prior Year Expenditure Adjustments	530		
Fiscal Year 1985:			
Budgeted Expenditures	582,779	1,159,551	
Direct Entries to Fund			
Balance		5,682 ²	
Total Reductions	<u>1,110,490</u>	<u>2,086,900</u>	<u>-0-</u>
FUND BALANCE, June 30, 1985	\$ -0-	\$ (433,760) ¹	\$2,180

¹ See Footnote 6.

² See Footnote 5.

These schedules are prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 24 through 26.

MONTANA STATE LIBRARY
SCHEDULE OF REVENUES - ESTIMATE AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

	<u>Federal Assistance</u>	<u>Reimbursements</u>	<u>Grants, Gifts, & Donations</u>	<u>Total</u>
<u>FISCAL YEAR 1984-85</u>				
Special Revenue Fund				
Estimated Revenue	\$ 977,869	\$3,000		\$ 980,869
Actual Revenue	<u>714,940</u>	<u>2,630</u>		<u>717,570</u>
Collections Over(Under)				
Estimate	<u>\$(262,929)</u>	<u>\$ (370)</u>		<u>\$(263,299)</u>
 <u>FISCAL YEAR 1983-1984</u>				
Special Revenue Fund				
Estimated Revenue	\$ 690,079	\$ 3,000		\$ 693,079
Actual Revenue	<u>512,885</u>	<u>1,116</u>		<u>514,001</u>
Collections Over(Under)				
Estimate	<u>\$(177,194)</u>	<u>\$(1,884)</u>		<u>\$(179,078)</u>
 Expendable Trust Fund				
Estimated Revenue			\$ -0-	\$ -0-
Actual Revenue			<u>2,180</u>	<u>2,180</u>
Collections Over(Under)				
Estimate			<u>\$2,180</u>	<u>\$ 2,180</u>

These schedules are prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 24 through 26.

GENERAL FUND
Budget
Actual
Personal Se
Operating E
Equipment
Total Ac
Unspent Appr

SPECIAL REVEN
Budget
Actual
Personal Se
Operating E
Equipment
Grants
Total Ac
Unspent Appr

PROGRAM TOTAL
Budget
Actual
Personal Se
Operating E
Equipment
Grants
Total Ac
Unspent Appr

1 Settlement o

These schedul
financial sche

MONTANA STATE LIBRARY
 SCHEDULE OF PROGRAM EXPENDITURES BY FUND
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 1985

	Reference and Information Service	Library Development	Institutional Library Service	Library Service for Physically Handicapped	Administration	Technical Services	Total
GENERAL FUND							
Budget	\$283,909	\$ 43,206	\$18,239	\$ 56,391	\$139,686	\$ 65,483	\$ 606,914
Actual							
Personal Services	94,697	26,145	10,431	28,488	73,072 ¹	61,657	294,490
Operating Expenses	121,209	15,482	4,741	25,193	64,753	1,698	233,076
Equipment	50,849	431	1,921	180	1,413	419	55,213
Total Actual	266,755	42,058	17,093	53,861	139,238	63,774	582,779
Unspent Appropriation Authority	\$ 17,154	\$ 1,148	\$ 1,146	\$ 2,530	\$ 448	\$ 1,709	\$ 24,135
SPECIAL REVENUE FUND							
Budget	\$109,026	\$1,203,574	\$49,680	\$ 88,823	\$ 37,555	\$ 57,957	\$1,546,615
Actual							
Personal Services	44,680	54,096	24,310	71,235	29,252	29,726	253,299
Operating Expenses	40,037	35,603	12,569	17,407	8,239	26,736	140,591
Equipment	23,696		12,546			1,049	37,291
Grants		728,370					728,370
Total Actual	108,413	818,069	49,425	88,642	37,491	57,511	1,159,551
Unspent Appropriation Authority	\$ 613	\$ 385,505	\$ 255	\$ 181	\$ 64	\$ 446	\$ 387,064
PROGRAM TOTAL							
Budget	\$392,935	\$1,246,780	\$67,919	\$145,214	\$177,241	\$123,440	\$2,153,529
Actual							
Personal Services	139,377	80,241	34,741	99,723	102,324	91,383	547,789
Operating Expenses	161,246	51,085	17,310	42,600	72,992	28,434	373,667
Equipment	74,545	431	14,467	180	1,413	1,468	92,504
Grants		728,370					728,370
Total Actual	375,168	860,127	66,518	142,503	176,729	121,285	1,742,330
Unspent Appropriation Authority	\$ 17,767	\$ 386,653	\$ 1,401	\$ 2,711	\$ 512	\$ 2,155	\$ 411,199

¹Settlement of personnel action see footnote 7.

These schedules are prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 24 through 26.

GENERAL

Budget

Actual

Perso

Opera

Equip

To

Unspen

SPECIAL

Budget

Actual

Person

Operat

Equip

Grants

Tot

Unspent

PROGRAM

Budget

Actual

Persor

Operat

Equipm

Grants

Tot

Unspent

These sc
notes to

MONTANA STATE LIBRARY
SCHEDULE OF PROGRAM EXPENDITURES BY FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

	<u>Reference and Information Services</u>	<u>Library Development</u>	<u>Institutional Library Service</u>	<u>Library Service for Physically Handicapped</u>	<u>Administration</u>	<u>Technical Services</u>	<u>Total</u>
GENERAL FUND							
Budget	\$256,412	\$ 44,161	\$18,462	\$ 53,522	\$101,174	\$ 65,498	\$ 539,229
Actual							
Personal Services	94,347	30,700	18,031	27,708	68,696	61,778	301,260
Operating Expenses	107,018	12,052		24,482	25,330	3,516	172,398
Equipment	52,898				625		53,523
Total	254,263	42,752	18,031	52,190	94,651	65,294	527,181
Unspent Appropriation Authority	\$ 2,149	\$ 1,409	\$ 431	\$ 1,332	\$ 6,523	\$ 204	\$ 12,048
SPECIAL REVENUE FUND							
Budget	\$112,415	\$929,554	\$47,114	\$ 80,863	\$ 36,205	\$ 64,084	\$1,270,235
Actual							
Personal Services	44,470	55,387	27,347	63,287	28,192	29,072	247,755
Operating Expenses	40,750	30,258	8,274	15,018	6,524	27,445	128,269
Equipment	24,767	2,458	9,855			7,250	44,330
Grants		501,313					501,313
Total	109,987	589,416	45,476	78,305	34,716	63,767	921,667
Unspent Appropriation Authority	\$ 2,428	\$340,138	\$ 1,638	\$ 2,558	\$ 1,489	\$ 317	\$ 348,568
PROGRAM TOTAL							
Budget	\$368,827	\$973,715	\$65,576	\$134,385	\$137,379	\$129,582	\$1,809,464
Actual							
Personal Services	138,817	86,087	45,378	90,995	96,888	90,850	549,015
Operating Expenses	147,768	42,310	8,274	39,500	31,854	30,961	300,667
Equipment	77,665	2,458	9,855		625	7,250	97,853
Grants		501,313					501,313
Total	364,250	632,168	63,507	130,495	129,367	129,061	1,448,848
Unspent Appropriation Authority	\$ 4,577	\$341,547	\$ 2,069	\$ 3,890	\$ 8,012	\$ 521	\$ 360,616

These schedules are prepared from the Statewide Budgeted and Accounting System. Additional information is provided in the notes to the financial schedules on pages 24 through 26.

PERSONAL SER
Salaries
Employee Be
Total Per

OPERATING EX
Contracted
Supplies an
Communicati
Travel
Rent
Repair and
Other Expen
Total Ope

EQUIPMENT
Equipment
Total Equ

GRANTS
From State
From Federa
Total Gran

TOTAL PROGRAM

These schedu
financial sci

MONTANA STATE LIBRARY
SCHEDULE OF PROGRAM EXPENDITURES BY OBJECT
FOR THE FISCAL YEAR ENDED JUNE 30, 1985

	<u>Reference and Information Service</u>	<u>Library Development</u>	<u>Institutional Library Service</u>	<u>Library Service for Physically Handicapped</u>	<u>Administration</u>	<u>Technical Services</u>	<u>Total</u>
PERSONAL SERVICES							
Salaries	\$116,984	\$ 67,901	\$ 28,808	\$ 82,336	\$ 84,982	\$ 75,539	\$ 456,550
Employee Benefits	22,393	12,340	5,933	17,387	17,342	15,844	91,239
Total Personal Services	<u>139,377</u>	<u>80,241</u>	<u>34,741</u>	<u>99,723</u>	<u>102,324</u>	<u>91,383</u>	<u>547,789</u>
OPERATING EXPENSES							
Contracted Services	46,076	29,686	11,476	3,216	46,553	25,259	162,266
Supplies and Materials	3,805	3,317	830	2,286	1,713	1,321	13,272
Communications	10,672	9,593		5,410	4,192	1,020	30,887
Travel	3,487	8,081	4,218	4,265	17,440	537	38,028
Rent	90,501		61	25,065	230		115,857
Repair and Maintenance	1,330	95	8	1,749	1,337	63	4,582
Other Expenses	5,375	313	717	609	1,527	234	8,775
Total Operating Expenses	<u>161,246</u>	<u>51,085</u>	<u>17,310</u>	<u>42,600</u>	<u>72,992</u>	<u>28,434</u>	<u>373,667</u>
EQUIPMENT							
Equipment	74,545	431	14,467	180	1,413	1,468	92,504
Total Equipment	<u>74,545</u>	<u>431</u>	<u>14,467</u>	<u>180</u>	<u>1,413</u>	<u>1,468</u>	<u>92,504</u>
GRANTS							
From State Sources		377,519					377,519
From Federal Sources		350,851					350,851
Total Grants		<u>728,370</u>					<u>728,370</u>
TOTAL PROGRAM EXPENDITURES	<u>\$375,168</u>	<u>\$860,127</u>	<u>\$ 66,518</u>	<u>\$142,503</u>	<u>\$176,729</u>	<u>\$121,285</u>	<u>\$1,742,330</u>

These schedules are prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 24 through 26.

PERSONA

Salari

Benefi

Tota

OPERATI

Contra

Suppli

Commun

Travel

Rent

Repair

Other

Tota

EQUIPME

Equipm

Tota

GRANTS

From S

From F

Tota

TOTAL P

These s
notes t

MONTANA STATE LIBRARY
SCHEDULE OF PROGRAM EXPENDITURES BY OBJECT
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

	Reference and Information Services	Library Development	Institutional Library Service	Library Service for Physically Handicapped	Administration	Technical Services	Total
PERSONAL SERVICES							
Salaries	\$115,170	\$ 72,214	\$37,731	\$75,098	\$80,643	\$74,919	\$ 455,775
Benefits	23,647	13,873	7,647	15,897	16,245	15,931	93,240
Total Personal Services	<u>138,817</u>	<u>86,087</u>	<u>45,378</u>	<u>90,995</u>	<u>96,888</u>	<u>90,850</u>	<u>549,015</u>
OPERATING EXPENSES							
Contracted Services	36,349	25,299	7,035	2,517	6,611	20,603	98,414
Supplies and Materials	4,295	1,643	35	2,131	889	2,729	11,722
Communications	2,179	6,448		6,555	4,889	7,313	27,384
Travel	3,083	8,826	558	2,753	18,202	285	33,707
Rent	99,533			24,496			124,029
Repair and Maintenance	770			620	571		1,961
Other Expenses	1,559	94	646	428	692	31	3,450
Total Operating Expenses	<u>147,768</u>	<u>42,310</u>	<u>8,274</u>	<u>39,500</u>	<u>31,854</u>	<u>30,961</u>	<u>300,667</u>
EQUIPMENT							
Equipment	77,665	2,458	9,855		625	7,250	97,853
Total Equipment	<u>77,665</u>	<u>2,458</u>	<u>9,855</u>		<u>625</u>	<u>7,250</u>	<u>97,853</u>
GRANTS							
From State Sources		356,849					356,849
From Federal Sources		144,464					144,464
Total Grants		<u>501,313</u>					<u>501,313</u>
TOTAL PROGRAM EXPENDITURES	<u>\$364,250</u>	<u>\$632,168</u>	<u>\$63,507</u>	<u>\$130,495</u>	<u>\$129,367</u>	<u>\$129,061</u>	<u>\$1,448,848</u>

These schedules are prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 24 through 26.

MONTANA STATE LIBRARY
NOTES TO THE FINANCIAL SCHEDULES
JUNE 30, 1984 AND 1985

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The state of Montana utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the library:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriation are required to spend from this fund type. The Library accounts for Coal Severance Tax funds distributed to six library federations for the support of key services such as: interlibrary loan of

materials, reference and information services, collection of books and training of staff for a better library. This fund also accounts for federal monies for the Library for the Blind and Physically Handicapped users, the development of MONCAT, a data base of all library materials owned by Montana libraries, providing services to residents in Montana institutions, and distributing grants for the construction and renovation of libraries throughout the state.

Trust and Agency - accounts for assets held in trust or as an agent by the library for others. A legislative appropriation is not required to spend from these funds. The library uses the Expendable Trust Fund. The monies in this fund were willed to the Library from a long time user of the Library's services and have been used to purchase equipment that might not have been acquired otherwise.

2. ANNUAL AND SICK LEAVE

Employees are paid for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the financial schedules of the Montana State Library. Expenditures for termination pay currently are absorbed in the annual operational costs of the office. At June 30, 1985, the library had a liability of approximately \$44,431 for annual and sick leave.

3. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS). The library's contributions to these plans were \$27,667 in fiscal year 1984-85 and \$28,652 in fiscal year 1983-84.

4. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency schedule the General Fund beginning and ending fund balance will always be zero.

5. DIRECT ENTRIES TO FUND BALANCE

Two direct entries to fund balance (\$3,118 - fiscal year 1983-84 and \$5,682 - fiscal year 1984-85) were made by the Department of Administration - Accounting Division to properly present beginning fund balance and recognize revenue in the federal accounting entity in the proper fiscal year in accordance with state revenue recognition criteria.

6. COAL SEVERANCE TAX

Montana State Library and Department of Revenue share a combining/combined accounting entity to account for the coal severance tax revenue allocated to the library in accordance with section 15-35-108, MCA. The revenue is recorded by the Department of Revenue and appears on its financial schedules. The expenditures are recorded by Montana State Library on its financial schedules. Because SBAS does not reflect a transfer-in the Montana State Library shows a negative fund balance and negative cash balance in its combining accounting entity at fiscal year-end. During fiscal year 1983-84 two entries to fund balance were made totaling \$814,342 which increased cash and fund balance in the Special Revenue Fund. These entries represented the amount of coal severance tax revenue distributed to the Montana State Library for the two fiscal years: \$400,225 - fiscal year 1982-83 and \$414,117 - fiscal year 1983-84. A direct entry was not made in fiscal year 1984-85 because the combined accounting entity properly reflects revenue and expenditures of the entity on SBAS. However, the combining accounting entity for Montana State Library reflects a negative fund balance of \$433,760 at fiscal year-end 1985.

7. HIRING PREFERENCE LAWSUIT SETTLEMENT

As a result of the decision concerning a hiring preference lawsuit, the Montana State Library paid a conciliation settlement of \$43,666 under the Human Rights Commission. The settlement was paid in fiscal year 1984-85 with a supplemental appropriation from the state's General Fund.

MONTANA STATE LIBRARY
SCHEDULE OF GRANT RECEIPTS AND EXPENDITURES
FOR FISCAL YEARS ENDING JUNE 30, 1984 and 1985

<u>Receipts</u>	<u>Fiscal Year</u> <u>1985</u>	<u>Fiscal Year</u> <u>1984</u>	<u>Total</u>
Title I	\$476,756	\$405,624	\$882,380
Title II	122,869	92,298	215,167
Title III	<u>115,315</u> ¹	<u>14,962</u> ²	<u>130,277</u>
Total	714,940	512,884	<u>1,227,824</u>

<u>Expenditures</u>	<u>Fiscal Year</u> <u>1985</u>	<u>Fiscal Year</u> <u>1984</u>	<u>Total</u>
Title I	477,540	399,134	876,674
Title II	122,730	92,437	215,167
Title III	<u>115,315</u> ¹	<u>14,962</u> ²	<u>130,277</u>
Total	715,585	506,533	<u>1,222,118</u>

¹ \$714,940 - Total fiscal year 1985 Receipts
715,585 - Total fiscal year 1985 Expenditures
\$ (645) - Prior Year Expenditure Adjustments - Title I

² \$512,884 - Total fiscal year 1984 Receipts
506,533 - Total fiscal year 1984 Expenditures
\$ 6,351

\$ 670 - Prior Year Expenditure Adjustment - Title I
5,681 - Difference due to Library improperly recording fiscal
\$ 6,351 year 1985 Revenue in fiscal year 1984.

AGENCY RESPONSE

MONTANA STATE LIBRARY

TED SCHWINDEN, GOVERNOR

1515 E 6TH AVENUE

STATE OF MONTANA

(406) 444-3115

HELENA, MONTANA 59620



March 21, 1986

PROCESSED

Scott A. Seacat
Legislative Auditor
State Capitol
Helena, MT 59620

Mr. Seacat

Dear Mr. Seacat:

Attached is the response of the State Library Commission to the recommendation of the FY84/85 audit of the Montana State Library. The Commission concurs with nine of the recommendations. It does not concur with recommendation #9 on indirect cost recovery. Our non-concurrence is based on oral information from the US Office of Education. We are working with them and will work with your staff to reach a satisfactory implementation of this recommendation.

During the biennium which was audited, our agency went through extensive revision of its financial structure. It was for us a massive undertaking. Knowing this may help you and the Legislative Audit Committee understand the context within which the audit findings were made.

During this audit I worked closely with your staff. It was a learning process for me and a valuable one. I appreciate very much all of the management information and guidance I received. Being able to meet with your audit manager shortly after the conclusion of the work and in advance of the exit interview gave me a course of action. We could begin immediately to work to improve the financial management of the State Library. In the weeks since that meeting we have, I believe, made good progress.

Implementing the recommendations will have the highest possible priority for the Library, the State Library Commission and myself.

Sincerely,

Sara Parker
Sara Parker
State Librarian

SP:jd

STATE LIBRARY RESPONSE TO FY84/85 AUDIT RECOMMENDATIONS

- #1. Concur - The library has hired an accountant for a three month assignment to establish written procedures as recommended. This is high priority for the agency. Work will continue until the library has in place all needed written procedures. An extensive training program is underway. The State Librarian and Administrative Assistant have audited a class in accounting; the latter has completed two courses in SBAS; both attended PAMS training. The accountant will train staff in both individual and group sessions.
- #2. Concur - The library changed procedures immediately. Staff of the Technical Services unit is responsible for ordering and recording books purchased. A different employee from the Reference and Information Service is now responsible for the receiving function.
- #3. Concur - On December 12, 1985, the State Librarian issued a new written procedure on reviewing and signing employee time sheets. Written procedures for review and approval of other documents are being prepared (see Recommendation #1). The State Librarian is working with staff to train them in review and approval of documents. She is also monitoring this closely.
- #4. Concur - This recommendation will be implemented in three ways:
A. Through written guidelines on what constitutes adequate documentation.
B. Training staff, and C. Close monitoring by those who have approval authority.
- #5. Concur - A procedure will be written which will require all documents considered for disposal are reviewed by the State Librarian.
- #6. Concur - In January, 1986, the Library acted on this. A temporary employee was hired to release a staff member to do an original physical count. This has been completed for the facility in Helena. Property is tagged and documents for input into PAMS/SBAS are being prepared. Still to be inventoried are the library at Warm Springs and those assets located throughout the State. Written procedures will be established and staff trained. (see Recommendation #1)
- #7. Concur - The temporary employee was properly reimbursed on December 24, 1985. Written procedures will be established and staff will be trained in how to follow the correct state procedures.
- #8. Concur - The library will revise its DA-105 authorizing form. It will establish written procedures for the Contingent Revolving Fund and train staff.

State Library Response to FY84/85 Audit Recommendation

#9. Do Not Concur - The library has been advised orally by the federal program officer responsible for Montana's LSCA approval that the language of the act says, "any funds....shall be expended solely for the purpose for which funds have been authorized and appropriated". The act permits the use of funds for direct administration by the State Library agency.

The federal officer told the State Librarian only one state had negotiated use indirect cost recovery and that its funds were being withheld. The Assistant Legislative Auditor asked that we obtain this in writing. A letter requesting this has been sent to Washington. We are awaiting response. If we cannot obtain this in writing, the State Library will implement the recommendation.

#10. Concur - The accountant is working to correct the Federal Cash Status Reports. New procedures and new ways of handling federal cash are being established. These should ensure all grant activity is recorded and the federal reports can be traced to state accounting records.

SP/ March 21, 1986

